Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of the Application of Altice N.V., Transferee, and Cablevision Systems Corporation, Transferor, Application for Authority Pursuant to Section 214 of the Communications Act of 1934, as Amended, to Transfer Control of Domestic and International Section 214 Authorizations	)	WC Docket No. 15-257

JOINT REPLY COMMENTS OF ALTICE N.V.
AND CABLEVISION SYSTEMS CORPORATION

Altice N.V. ("Altice") and Cablevision Systems Corporation ("Cablevision," and, together with Altice, the "Joint Applicants"), by counsel and pursuant to the Commission's *Public Notice* in the captioned proceeding,[1] respectfully submit these reply comments in support of their applications seeking authority to transfer control of Cablevision and its subsidiaries to Altice (the "Transaction").[2]

[1] *Applications Filed for the Transfer of Control of Cablevision Systems Corporation to Altice N.V.*, Public Notice, WC Docket No. 15-257, DA 15-1258 (rel. Nov. 5, 2015).

[2] *Applications for Authority Pursuant to Section 214 of the Communications Act of 1934, as Amended, to Transfer Control of Authorizations from Cablevision Systems Corporation to Altice N.V.*, WC Docket No. 15-257 (filed October 14, 2015) (the "Applications").

As demonstrated in the Applications, Altice's proposed acquisition of Cablevision will result in tangible public interest benefits to consumers without any countervailing risk of competitive harm in the market for voice, video or broadband service.[3] The Transaction will enable Cablevision's customers to benefit from Altice's global resources and expertise. The Transaction will enhance Cablevision's capacity to compete. And the Transaction will reduce vertical integration.

Only four entities commented on the Applications. None credibly disputed the demonstrable public interest benefits of the Transaction. One commenter, the Communications Workers of America, District 1 ("CWA"), relies on selective press accounts, mischaracterization and surmise to impugn the Transaction and advance its own narrow interests. Two others—Cogent Communications, Inc. ("Cogent") and Zoom Telephonics, Inc. ("Zoom")—seek to transform this merger review process into a forum for consideration of certain policy objectives that are not specifically related to, and are inappropriate to address in, this proceeding. The fourth, MFRConsulting ("MFR"), also relies on hearsay and speculation in urging the Commission to disapprove a transaction that MFR simply appears to dislike. [4]

These reply comments correct the misimpressions raised by these commenters and confirm that the Transaction is in the public interest. As explained below, Altice's acquisition structure and business plan for Cablevision are sound, and the public interest benefits of the Transaction are demonstrated by Altice's track record in the highly competitive markets in which it operates around the world. To the extent certain commenters raise general policy

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[3] *See* Applications at 6–14.

[4] MFR's comments fail to identify the interests it represents and are unsigned, in contravention of Section 1.52 of the Commission's rules. 47 C.F.R. §1.52. MFR's submission should be dismissed on this basis alone.

concerns regarding issues such as broadband interconnection or cable modem availability, those concerns are not Transaction-specific and are not appropriately considered in this proceeding.

Last week, the Commission concluded that Altice's acquisition of Suddenlink "is likely to result in tangible benefits for customers through improved broadband service and investment."[5] By acquiring Cablevision and continuing to invest in and develop the Cablevision network, Altice expects to bring these same benefits to Cablevision's subscriber base.

I. THE TRANSACTION WILL BRING ALTICE'S DEMONSTRATED TRACK RECORD OF NETWORK INVESTMENT TO CABLEVISION SUBSCRIBERS

Doomsday predictions by CWA and MFR regarding the alleged consequences of the Transaction reflect a fundamental misunderstanding of financial markets, Altice's business plan for Cablevision, and Alice's track record of investment in its service provider affiliates.

As an initial matter, the financing for the Transaction has been vetted by financial markets, rating agencies, and financing institutions, all of which have concluded that Altice will possess the resources it needs to acquire, maintain, and improve the Cablevision network. For this Transaction, Altice successfully raised $8.6 billion at an average cost of 7.6 percent with an average tenor of 7.9 years. As a result, the average maturity of Cablevision's pro forma $14.5 billion capital structure will be extended significantly, with a combined average cost of 7.5 percent and a maturity of 6.7 years. Moreover, the indentures related to the financing provide Altice and Cablevision with significant financial flexibility to invest in the business. Going forward, Cablevision will have access to a five-year, $2 billion revolving credit facility, which will afford Altice additional flexibility to meet its financial obligations for Cablevision.

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[5] *In the Matter of Applications Filed by Altice N.V. & Cequel Corp. d/b/a Suddenlink Commc'ns to Transfer Control of Authorizations from Suddenlink Commc'ns to Altice N.V.*, Memorandum Opinion and Order, DA 15-1451, ¶16 (Dec. 18, 2015) ("Suddenlink Order").

Furthermore, the incremental interest expense at Cablevision as a result of the Transaction is expected to be around $550 million annually, significantly below the $654 million "new interest payment" alleged by CWA, which ignored the fact that some of the debt raised in connection with the transaction will be used to refinance Cablevision's existing indebtedness.[6] These figures belie the unspecified and unsupported claims made by CWA and MFR that financial market concerns will hinder Altice's access to capital.[7]

CWA and MFR also misstate key elements of Altice's business plan for Cablevision. CWA and MFR allege that Altice has projected a reduction of "$900 million in *annual* operating costs"[8] and $1.05 billion in total expenses *annually*, which CWA asserts would "result in fewer financial resources available for network maintenance and investment and fewer employees to provide prompt, quality service to customers."[9] These allegations are simply false. The projected $900 million in cost savings will not be realized immediately or annually. Rather, this is the amount Altice expects to realize over an approximately three- to five-year period. Initially, the majority of savings that Altice expects to realize will have nothing to do with areas that bear directly on the customer experience. Indeed, shortly after the Transaction closes, Altice will be examining the existing business from a fresh perspective and focusing on costs related to overhead, general and administrative expenses, procurement, and special projects that can be eliminated without adverse consequences to service or consumers. As Moody's noted, Altice can reasonably expect to achieve about $450 million in savings "in a phased approach over a two

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[6] *See* Comments of Communication Workers of America, WC Docket No. 15-257, at 9 (filed Dec. 7, 2015) ("CWA Comments").

[7] *See* CWA Comments at 11; Comments of MFRConsulting, WC Docket No. 15-257, at 19–21 (filed Dec. 7, 2015) ("MFR Comments").

[8] MFR Comments at 4 (emphasis added).

[9] CWA Comments at 8.

to three year timeframe," particularly "given Cablevision's below-average pre-deal margins, historical expenses related to its family ownership and Altice's management experience with acquisitions within the cable industry."[10]

Furthermore, contrary to the commenters' claims, Altice has actually spent more in capital expenditure in previous periods than has Cablevision. In the third quarter of 2015, Cablevision's capital expenditures equaled 13.8% of revenue, while Altice as a group spent 15.8 percent of revenue and Numericable-SFR in France spent 15.1 percent of revenue, with market guidance for an increase in capital expenditures in the fourth quarter of 2015, 2016, and 2017.[11] Suggestions by commenters that Altice will reduce investment levels in Cablevision are therefore without merit. Indeed, after the Transaction, Altice anticipates that Cablevision will realize capital expenditure benefits related to (i) the elimination of experimental and duplicative spending that has no impact on the customer experience, (ii) scale benefits that result from becoming part the Altice family of companies, which will offer, for example, improved customer equipment options and more efficient price points, and (iii) longer-term benefits stemming from Altice's continued network investment focus, including investment in Cablevision's WiFi network.

Over time, most of the savings that Altice expects to achieve will be predicated on Altice's investment in Cablevision's business. As explained in the Applications, Altice plans to

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[10] Moody's Investors Service, *Moody's assigns B1 to Neptune Finco Corp. (Altice/Cablevision acquisition financing)*, Moody's (Sept. 24, 2015), https://www.moodys.com/research/Moodys-assigns-B1-to-Neptune-Finco-Corp-AlticeCablevision-acquisition-financing--PR_335284.

[11] *See* Press Release, Altice Group, Altice – Third Quarter 2015 Results (Oct. 28, 2015), *available at* http://altice.net/wp-content/uploads/2015/10/20151028-ALT-Q3-2015-Earnings-Release.pdf.pdf ("Altice 2015 Q3 Press Release"); Press Release, Cablevision Systems Corp., Cablevision Systems Corporation Reports Third Quarter 2015 Results (Nov. 3, 2015), *available at* http://www.cablevision.com/investor/.

upgrade the Cablevision network by pushing fiber deeper into the network, eliminating active components in order to achieve lower failure rates, and introducing newer, better, and more consumer-friendly customer premises equipment. Altice also plans to invest in IT infrastructure and replace legacy IT systems with more robust, easier-to-manage platforms, which will reduce operational complexity and enable the company to better serve customers through improved service provisioning, billing, and incident management.

These network and IT investments will be financed in part by the initial savings realized and will result in better service to Cablevision customers and higher satisfaction rates. Over time, as network reliability and IT infrastructure improves, Altice will be able to redeploy resources as needed to ensure that Cablevision continues to operate reliably and efficiently.

Altice has taken precisely this approach in jurisdictions outside the United States without triggering the parade of horribles that CWA and MFR predict. For instance, in France and Portugal, Altice has focused on intensive network investment, without attendant reductions in workforce. When Altice acquired SFR in France just over a year ago, it inherited a mobile business that had underinvested in its network. Virtually all of the SFR subscriber losses that CWA noted in its comments[12] reflected the continuing effects of historical underinvestment by SFR's previous owner, both in connection with its mobile network and its DSL-based broadband service. Since acquiring SFR, Altice has made significant investments to resolve the issues driving subscriber loss. For example, between the first quarter and fourth quarter of 2015 alone, Altice expanded the percentage of base stations upgraded from 3G to 4G from 42.5 percent to

[12] *See* CWA Comments at 16.

54.3 percent.[13] Altice also announced plans to accelerate its 4G investments, which resulted in 4G coverage nearly doubling from 33 percent in November 2014 to more than 60 percent by the end of the third quarter of 2015.[14] Altice plans to maintain this progress by offering 90 percent 4G coverage by 2017 and over 95 percent coverage by 2020.[15] Meanwhile, Altice increased the number of SFR's new fiber homes to 330,000 by the end of the third quarter of 2015 and expects to accelerate this expansion to around 500,000 additional homes per quarter in 2016 and 2017. Altice plans to continue this effort at SFR by accelerating its fiber build-out plans to reach 12 million homes by 2017 and 22 million homes by 2022.[16]

These types of strategic investments—which improve the quality and reliability of service—have, in turn, enabled Altice to realize operating cost savings at SFR. As Moody's noted recently, it expects increased capital expenditures by Numericable-SFR and other French telecom operators "will enhance network quality and underpin future revenue growth."[17] Altice expects to realize precisely these types of savings when it deploys the same network and service investment strategy at Cablevision.

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[13] *See* Presentation, "Morgan Stanley TMT Conference" (Nov. 12, 2015), *available at* http://altice.net/wp-content/uploads/2015/11/20151112-MS-Barcelona-Conference.pdf ("Morgan Stanley Presentation").

[14] *See id.* at 6.

[15] *See id.*

[16] *See id.* These investments also have led to improvements in SFR's Business-to-Consumer mobile division, too. Addressing 3G underinvestment issues related to the previous owner is important to Altice because it has effectively been a prerequisite to competing more aggressively in the market for new subscribers.

[17] Moody's Investors Service, *Moody's: Shift to value investment to lift French telecom operators' profitability in 2016*, Moody's (Dec. 1, 2015), https://www.moodys.com/research/Moodys-Shift-to-value-investment-to-lift-French-telecom-operators--PR_340188.

Altice's experience in Portugal also exemplifies the success of this approach. After acquiring Portugal Telecom earlier this year, Altice committed to deploying a 100 percent fiber network for the company, thereby creating the most innovative and advanced fiber network in Europe. Indeed, this investment in network—which will result in better services, higher customer satisfaction, and lower costs—already is paying off, as Portugal Telecom is realizing annualized savings through reduced subscriber call volumes and efficiency gains in network field operations, IT simplification and the in-sourcing of customer service operations, and more favorable terms in network maintenance contracts.[18] In short, contrary to unsubstantiated commenter claims, Altice's business model is focused on re-investing in infrastructure to enhance competitiveness and create long-term value.

Altice's approach to network investment has brought benefits to *all* of its customers, not merely those customers who buy higher-cost service packages, as CWA alleges. In Altice's view, the best customers are loyal customers, and loyalty results from service offerings that customers find to be dependable and affordable. By investing in the Cablevision network and providing user-friendly, innovative service to its consumers, Altice expects to earn customer loyalty, resulting in a lower churn rate and ultimately better average revenue per user.[19] This, in turn, will perpetuate revenue growth to support yet further investment and innovation.

CWA and MFN also make false and unsubstantiated allegations regarding Altice's supplier payment and accounting practices. As a threshold matter, commercial disputes with suppliers are not within the purview of the Commission's transaction review process. Even if they were, however, Altice deals appropriately with its suppliers. Like any industry

[18] *See* Morgan Stanley Presentation at 18.

[19] *See* Morgan Stanley Presentation at 7.

participant, Altice negotiates aggressively with its suppliers in an effort to reduce its costs and improve its financial and operating efficiency. But these reductions ultimately inure to the benefit of consumers, who pay lower rates for better product offerings as a result. Further, Altice's accounting practices are fully transparent: Altice's financial statements are prepared in compliance with International Financial Recording Standards and are available for public inspection on its website.[20]

As for the Joint Statement appended to CWA's comments regarding workforce matters, it is long on rhetoric but short on facts. The Joint Statement implies that Altice financed its acquisitions in France and Portugal by implementing cost savings through workforce reductions. This simply is not true. Since acquiring Numericable-SFR and Portugal Telecom, Altice has not implemented any acquisition-related workforce reductions.

In short, CWA and MFR fail to present any cognizable evidence in support of their allegations. The Commission has been clear that idle speculation has no place in merger review proceedings.[21] It should treat their comments accordingly here.

II. BROADER POLICY CONCERNS SHOULD BE ADDRESSED IN A RULEMAKING PROCEEDING OF GENERAL APPLICABILITY

The relief sought by Cogent and Zoom reflects a desire to transform this transaction review into a mechanism for advancing broader business and policy objectives. Accordingly, these comments should have no bearing on the Commission's review or decision.

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[20] *See* Altice, *Financial Documentation*, http://altice.net/ir-group/financial-documentation/.

[21] *See e.g.*, *Applications of AT&T Inc. and DIRECTV for Consent to Assign or Transfer Control of Licenses and Authorizations*, Memorandum Opinion and Order, MB Docket No. 14-90, ¶¶ 174, 181, 266 (2015) (disregarding purported harms that are speculative and not merger specific); *Applications for Transfer of Control of Licenses from Comcast Corp. and AT&T Corp., Transferors, to AT&T Comcast Corp., Transferee*, Memorandum Opinion and Order, 17 FCC Rcd. 23246, 23310, ¶ 165 (2002) (same).

Although Cogent acknowledges it "has always enjoyed a strong business relationship with Cablevision,"[22] it nonetheless asks the Commission to require that the Applicants (1) interconnect with qualifying networks or edge providers and augment capacity on a settlement-free basis, (2) agree to disclose all interconnection agreements for a period of four years following consummation of the Transaction and (3) regularly report Internet interconnection performance metrics.[23] These suggested conditions have no connection to the Applicants or the Transaction; instead, Cogent appears to believe that all "major" Internet Service Providers should be bound by Cogent's preferred "benchmark for current Internet traffic exchange practices."[24]

Of course, such relief is the hallmark of a rulemaking proceeding, not a transaction review. The Applicants agree that "sound interconnection practices" [25] are essential to providing the world-class broadband Internet connectivity Altice and Cablevision intend to provide. But the Commission has expressly declined to subject such practices to prescriptive rules, electing instead to "watch, learn, and act as required" in the context of specific interconnection disputes.[26] Cogent has provided no basis for the Commission to depart from that approach here. Moreover, Cogent's requests seem particularly unnecessary and odd in light of Cogent's own admission that its concerns "are not motivated by its pre-transaction experiences with Cablevision," which Cogent explains have enabled the companies "to provide fast, high-

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[22] Comments of Cogent Communications, Inc., WC Docket No. 15-257, at 3-4 (filed Dec. 7, 2015) ("Cogent Comments").

[23] *See id.* at 10.

[24] *Id*. at 9.

[25] *See id*. at 7.

[26] *Protecting and Promoting the Open Internet*, Report and Order on Remand, Declaratory Ruling, and Order, 30 FCC Rcd. 5601, 5611 (2015).

quality, and reliable Internet connectivity . . . ."[27] Cogent's comments therefore appear to be a solution in search of a problem.

Zoom likewise seeks conditions designed to address its broader policy concerns rather than issues arising from the Transaction. Zoom asks the Commission to require Altice-owned cable systems (including those controlled by Suddenlink, which are not at issue in this proceeding) to separately state an unsubsidized price for cable modem leases in their subscriber invoices and to afford subscribers the right to opt out of modem leases.[28] Zoom bases its requests primarily on the assertion that Cablevision's current practices violate Section 629 of the Communications Act and the Commission's implementing rules.[29] Yet even Zoom acknowledges that "there is some ambiguity" in the rules[30]—in that they can be read "*not* [to] extend the anti-bundling and anti-subsidy requirements to cable modems."[31] In fact, Zoom misreads Section 629. Section 629 states that the Commission may not prohibit MVPDs from offering set-top boxes if the charges are separately stated and not cross-subsidized. In other words, the Commission has the discretion—but not the obligation—to impose the requirements Zoom requests. As discussed above, the Commission's regulations do not impose such requirements on Cablevision's cable modems.

The Commission need not, and should not, resolve Zoom's legal arguments in this proceeding. The Commission has repeatedly rejected requests to impose conditions on

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[27] Cogent Comments at 3.

[28] *See* Comments of Zoom Telephonics, Inc., WC Docket No. 15-257, at iv, 16 (filed Dec. 7, 2015) ("Zoom Comments").

[29] *See id.* at 6–7.

[30] *Id*. at 7.

[31] *Id*. at 8 (emphasis added).

applicants in transactions solely to serve broad-based policy goals,[32] including as recently as last week in the order approving the Altice-Suddenlink transaction.[33] Indeed, "the Commission has held that it will impose conditions only to remedy harms that arise from the transaction (*i.e.*, transaction-specific harms) and that are related to the Commission's responsibilities under the Communications Act and related statutes," and thus "generally will not impose conditions to remedy pre-existing harms or harms that are unrelated to the transaction."[34] Both Cogent's and Zoom's claims constitute precisely the sort of requests and allegations that the Commission has recognized as being unrelated to specific transactions and thus outside the scope of the Commission's transaction review.

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[32] *See, e.g.*, *Applications of Softbank Corp., Starburst II, Inc., Sprint Nextel Corp., & Clearwire Corp.*, Memorandum Opinion and Order, Declaratory Ruling, and Order on Reconsideration, 28 FCC Rcd. 9642, 9674 (2013) ("We find that the record does not demonstrate that it is necessary or appropriate to revisit open Internet issues or impose open Internet conditions in the context of the proposed transactions" where "we have addressed issues concerning net neutrality in the context of a recent (and still open) industry-wide proceeding, and we see no reason to use this party-specific transaction to modify the decisions that we have made there.") (footnote omitted).

[33] *See* Suddenlink Order at ¶ 26–27 (reiterating that "[t]he Commission has rejected requests to impose conditions on applicants in particular transactions solely to serve broad-based policy goals" and refraining from imposing conditions except those set forth in the December 11, 2015 National Security Agreement).

[34] *Id.* at ¶ 18; *Applications of Cellco P'ship d/b/a Verizon Wireless & Atlantis Holdings LLC*, Memorandum Opinion and Order and Declaratory Ruling, 23 FCC Rcd. 17444, 17463 (2008) (footnote omitted); *see also Domestic Section 214 Application Filed for the Transfer of Control of Hawaiian Telcom, Inc. & Hawaiian Telcom Servs. Co., Inc., Debtors-in-Possession*, Public Notice, 25 FCC Rcd. 13149, 13151 (WCB 2010) ("The Commission generally will not impose conditions to remedy pre-existing harms or harms that are unrelated to the transaction at issue.") ("*Hawaiian Telcom Order*"); *Applications for Consent to the Assignment &/or Transfer of Control of Licenses Time Warner Inc., & its Subsidiaries*, 24 FCC Rcd. 879, 887 ("[T]he Commission has held that it will impose conditions only to remedy harms that arise from the transaction (i.e., transaction-specific harms) and that are reasonably related to the Commission's responsibilities under the Communications Act and related statutes.") (footnote omitted).

III. CONCLUSION

As described in the Applications, the Transaction will serve the public interest by affording Cablevision access to Altice's operational expertise, scale and resources.[35] The comments offer a misguided and misleading account of the Transaction and of Altice's business practices and plans. The comments do not provide any basis for imposing conditions on the Transaction, nor does any such justification exist. Accordingly, Applicants ask that the Commission approve the Transaction promptly.

Respectfully submitted,

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[35] Applications at 6–7.